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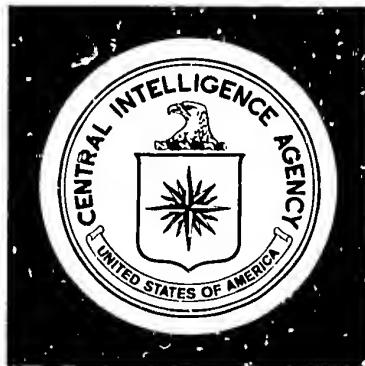
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Weekly Review

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Middle East: Toward Disengagement

The effort to settle the Middle East conflict enters another crucial stage with the arrival of Israeli Defense Minister Moshe Dayan in Washington on March 29. Dayan is to discuss with Secretary Kissinger Tel Aviv's proposals for initial disengagement of Syrian and Israeli forces on the Golan front; a Syrian representative is expected to hold similar talk here sometime after Dayan's departure. Further disengagement on the Egyptian front, the reconvening of the Geneva peace conference, and possibly the continued availability of Arab oil supplies to the US are contingent on the successful outcome of the discussions.

The Israeli press reveals considerable official and public pessimism over the prospects for disengagement talks. Prime Minister Golda Meir told a group of visiting American war veterans that she expected little from the talks in the US. Dayan himself has expressed reservations about the value of the Washington negotiations.

an initial disengagement accord. Israel reportedly will discuss withdrawal from the town of al-Qunaytirah only in the context of an over-all settlement with Damascus.

Syrian Foreign Minister Khaddam told the Arab League meeting in Tunis this week that a disengagement agreement with the Israelis must include the return of al-Qunaytirah to Syria.

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GOLAN FRONT FLARES UP

The level of artillery, tank, and mortar fire between Israeli and Syrian forces positioned along the Golan front flared abruptly on March 27 after several days of relatively minor clashes. Intermittent fighting lasted nearly 14 hours and involved the entire sector of the Israeli-held salient into Syria. The shelling resumed again the next day.

Although the heavy exchange on March 27 was initiated by Israeli artillery, there is little doubt that the clashes over the past 17 days have been orchestrated primarily by Damascus. The marked fluctuation in intensity during this period suggests that the Syrian motivation is more political than military. The Syrian leadership probably views the continuation of some level of armed conflict as necessary to maintain a strong negotiating position, as well as to demonstrate to the

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Concern over the possibility that the US might urge concessions unacceptable to Tel Aviv may have inspired recent press stories emphasizing that Israel will not agree to withdraw from any territory captured in the 1967 war as part of

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Arab world that the regime's basic militancy against Israel has not been eroded.

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staunch supporter of the Arab position. Early next week, however, Sadat will receive King Husayn, who wants to brief the Egyptian leader on the results of his recent Washington visit and consult on strategy for the Geneva peace talks.

According to the semi-official *Al-Ahram*, while Husayn is in Cairo, he is expected to give public recognition to the Palestine Liberation Organization as the "sole representative of the Palestinian people"—something he has been extremely reluctant to do thus far. Husayn almost certainly intends to discuss Jordan's relations with the fedayeen and perhaps—with Sadat's help—reach an agreement with the PLO on working together in some fashion at Geneva once the conference resumes. The King, however, is probably not yet ready to renounce all claims to the Israeli-occupied West Bank, although he is under considerable pressure from other members of the Jordanian royal family and the rest of the East Bank establishment to do just that.

Early this week, Damascus announced that President Asad had accepted a Soviet invitation to lead a government and party delegation to Moscow during the first half of April. The trip was apparently arranged during the visit of Soviet Foreign Minister Gromyko to Damascus early in March. Asad will undoubtedly confer with Soviet leaders about Syrian-Israeli disengagement negotiations, and he may press them for more arms. Although Asad's position at home seems fairly strong at present, he would probably welcome another show of Soviet support to further strengthen his hand against those who oppose his undertaking to negotiate with Tel Aviv.

THE PALESTINIAN FACTOR

Egypt's President Sadat, meanwhile, has been relatively inactive on the public scene while attention has been focused on the Syrian-Israeli arena. After receiving a high-level Peruvian delegation this week, he was off to Belgrade on March 28 for a two-day visit with President Tito, a

Al-Ahram also reported this week that an Egyptian-Palestinian committee will begin consultations on April 1 to "coordinate a joint stand" on the role of the Palestinians during the next phase of the Geneva conference. According to this account, President Sadat has assigned Foreign Minister Fahmi to negotiate with the Palestinians, and has assured PLO leader Arafat that Egypt and Syria will not embark on an over-all settlement unless the Palestinians are present at the Geneva talks.

Sadat's moves to include the Palestinians in the current round of negotiations are prompted in part by a need to assuage their constant fear that they are being abandoned by the Arab states, and in part by Sadat's desire for Arafat to continue his private support for Egypt's diplomatic initiatives. There is, in fact, little need to coordinate Egyptian and Palestinian negotiating strategies at this time. The two parties are being held back less by differences between them than by the inability of either to take further initiatives without Syria's concurrence.

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USSR-China

Rivalry in South Asia

A recent increase in Soviet attention to Chinese activities in South Asia betrays Moscow's interest in forestalling any improvement in Peking's relations with its southern neighbors. The Soviets are also concerned that some recent events, such as the Chinese seizure of the Paracel Islands, point to an understanding between Peking and Washington regarding the region.

The Paracels episode looms large because of long-standing Soviet sensitivity to any sign that the Chinese are becoming more aggressive. Moscow's propaganda mill, moreover, has been using the incident to exploit the traditional distrust of the Chinese in South and Southeast Asia.

The Soviets have also moved to take advantage of Chinese support for the insurgents in northeast Burma. On March 1, *Pravda* ran a long article that traced the Chinese role in Burma; its March 21st issue replayed Western press reports that Peking had moved several thousand more troops into the area. The Chinese have responded in kind, and this particular area will almost certainly be the subject of further propaganda exchanges.

over the Paracels and Chinese approval for the US base at Diego Garcia resulted from Sino-American bargaining on "dividing spheres of influence."

The Soviets realize that, despite their efforts, Peking's moves to improve relations with its neighbors to the south have already begun to bear fruit. Chinese and Malaysian diplomats have all but agreed on a final version of a joint communique announcing diplomatic relations. Thailand is preparing to lift a ban on Chinese imports and has agreed to begin negotiations on a formal Sino-Thai trade agreement. Finally, the Soviets are anticipating that Pakistan's recent recognition of Bangladesh has removed one of the major obstacles to a Chinese presence on the subcontinent.

Chinese Hold Soviet Helicopter

Sino-Soviet strains bode ill for an early release of the crew of a Soviet helicopter downed in mid-March in northwestern China. Peking has been engaged in anti-Soviet polemics for several months, attacking particularly Moscow's "expansionist" foreign policy and its espionage activities. A Communist newspaper in Hong Kong has in fact explicitly linked the downed helicopter with an incident in January that led to the expulsion of Soviet diplomats from China.

Violations along the Sino-Soviet border are not uncommon; the Chinese have charged the Soviets with more than 60 intrusions in the past year. Nevertheless, this is the first time since border negotiations began late in 1969 that either side has publicized such an incident. Previously scheduled Soviet military exercises near the border will add to the problem and further delay the release of the Soviet airmen.

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The Soviets are particularly concerned that Peking's efforts to increase its influence in South Asia are abetted by the Sino-American rapprochement. Moscow has publicly charged US-Chinese collusion over northern Burma and has argued that Peking's mild reaction to the Diego Garcia issue proves that Peking favors an expanded role for the US Navy in the Indian Ocean. Several Soviet commentaries have charged that US silence

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EC: Shaken But Not Shattered

The EC foreign minister will gather in Luxembourg on April 1 and 2 for their first meeting since debate sharpened over consultation procedures with the US. In addition, Britain's Labor government will be attending for the first time. Although taking heart that the agricultural ministers last week satisfied the immediate farm-policy demands of the UK's new government and avoided fresh divisions within the community, the EC members are aware that much more difficult decisions lie ahead.

The agreement on farm prices, reached on March 23, substantially increased agricultural supports but allowed a variety of subsidies to keep retail food prices down. The increase in support prices should have no immediate effect on the cost of most farm products, since market prices in EC states are generally above the support levels.

The EC capitals greeted the outcome of the agricultural ministers' meeting with relief. EC leaders had speculated earlier that Britain's new leaders would seize the occasion to challenge the basic principles of the community's common agricultural policy.

The agenda for the council meeting in Luxembourg is almost certainly too ambitious for thorough discussions, let alone decisions, on all the items, which include regional policy, cooperation with East European countries, the budgetary powers of the European Parliament, further negotiation of compensation due the US because of enlargement of the EC, Mediterranean policy, and a possible UN aid fund for developing countries.

The council meeting will be overshadowed by London's commitment to improve the terms of its EC membership. Foreign Secretary Callaghan may make specific demands at Luxembourg, and will in any case show part of his hand. Essentially, London is seeking to reduce its net financial obligation to the community and to open EC markets wider to commonwealth producers of raw materials. The British are attempting to achieve better terms without having to alter the community treaties radically. Even so,

some of London's aims will require fundamental readjustments.

The Labor leaders will apparently not be satisfied with the previous government's approach of trying to increase Britain's benefits under various community allocations, such as the proposed EC regional fund, as a means of balancing the UK's financial contribution to the community.

A basic reform of the common agricultural policy could also work to London's financial benefit, and EC circles are still nervous about the extent of British demands. For the French, the common agricultural policy is the most sacrosanct of EC accomplishments, and Paris would resist efforts to modify it.

London may, in contrast, stress a new look at the terms for assessing member-state contributions. The British favor a close correlation with an individual country's gross national product.

An early resolution of the problems London is raising about the terms of its membership is not likely. Callaghan has predicted a "hot summer of negotiation." The meeting next week should provide some indication, however, of the reforms that Britain's partners are willing to contemplate in an effort to preserve what is left of community solidarity.

This solidarity is still being strained by the differing national responses to Washington's desire for a more formal US-EC consultation procedure. Most EC leaders express the hope that consultations on foreign policy will be a two-way affair, but they are not sanguine that Paris will sanction improved procedures. Pending a decision on the formulation of a response to Washington, the EC proposal to offer wide-ranging cooperation to the Arab states is being held in abeyance at the insistence of several members.

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whole plants worth about \$250 million in addition to the \$1.2 billion worth of plants it purchased last year.

China's drawings of foreign credits totaled about \$550 million last year and will reach about \$1.4 billion in 1974. The ratio of debt service to exports will increase sharply this year. If Peking continues to purchase plants at the \$1 billion annual rate, the debt service ratio will remain high for several years with repayments, including interest, rising to more than \$1 billion annually. Nevertheless, if the value of Chinese exports to the non-Communist countries grows by approximately 20 percent each year—a likely prospect in view of the potential for petroleum exports and the probable continued rise in world prices—the debt service ratio will remain within manageable limits.

Peking is making strong efforts to increase foreign-exchange earnings. As part of the drive to increase exports, prices of Chinese goods have been raised, the quality has been improved, and new markets are being opened. Exports of petroleum could provide substantial earnings in the next few years—possibly exceeding a half billion dollars annually. China also is tapping other sources such as overseas remittances, deposits in Chinese-controlled banks, time deposits from foreign banks, a greatly expanded merchant marine, and small-scale tourism.

Barring unforeseen disruptions to the economy, Peking should be able to finance a growing import bill without straining its balance of payments. Continued growth in exports and invisible earnings will enable China to follow its present foreign trade policy without drawing down its estimated reserves of \$1.5 billion to dangerous levels. If Peking shifts policy and follows the Soviet example of accepting long-term credits and negotiating self-liquidating loans, even higher levels of imports would be possible without greatly increasing annual debt service.

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PAYING THE PIPE ↗

The deficits arising from Peking's huge agricultural imports and its multi-billion dollar program to buy industrial plants are compelling China to seek ways to finance its trade with the West.

In contrast to its previous reluctance to incur foreign debt, China has recently expanded its use of short- and medium-term credit to finance its trade deficits. China's trade deficit with the non-Communist countries last year was roughly \$500 million. Continued large deficits are expected in the next two years. China has signed grain import contracts covering the next three years with Canada, Australia, and Argentina, and additional purchases from the US are expected. Thus far in 1974, Peking has signed contracts for

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VIETNAM

ON PRIORITIES IN THE NORTH

An authoritative article by Vice Premier Le Thanh Nghi reinforces earlier signs that reconstruction and development of North Vietnam, rather than the struggle in the South, will receive priority attention for the next couple of years.

The article, published on March 14, was designed to explain to cadre the decisions of the 22nd Central Committee plenum held earlier this year. Nghi's article stated that the North's "key task" at present is to rebuild and industrialize its economy. With unusual bluntness, Nghi asserted that the North "should not be too bent on maintaining vigilance and making preparations for war" lest the reconstruction effort suffer. He indicated at more than one point that he expects this to be the line through 1974 and 1975.

Nghi emphasized that Hanoi remains as committed as ever to the southern struggle, but he claimed that North Vietnam can best fulfill its revolutionary duties at this time by building its own economic strength. This theme was stressed

by party leader Le Duan last spring, but pronouncements over the last few months have fuzzed the issue. Nghi did not rule out the possibility that once North Vietnam has achieved a degree of economic strength—and perhaps also once it has completed its current effort to improve and modernize the armed forces—it would attempt another major military move in the South.

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COMMUNIST PROPAGANDA IN THE SOUTH

The Viet Cong this week surfaced what they called an "important new initiative" for a military and political settlement in the South. The proposal, presented in Paris on March 22 and since treated to considerable fanfare in Hanoi's media, is essentially a rehash of the Communists' standard six-point program unveiled last April.

The only real difference is the omission of a call for the return to the January 28, 1973, cease-fire lines. While Hanoi has not been publicly pushing this demand for several months, it has always been included in any comprehensive statement of Communist programs. Its omission at this juncture is curious in light of the gradual erosion of Viet Cong territorial holdings.

The new version focuses considerable attention on the necessity for "third force" participation in a political settlement in the South. It also includes a harsh attack on Saigon's alleged foot-dragging on prisoner exchanges—standard themes of recent Communist propaganda.

Both China and the Soviet Union promptly endorsed the Viet Cong proposal, though in somewhat restrained terms. The South Vietnamese rejected it entirely, claiming it was merely a restatement of earlier ones.

It is unlikely the Communists expect their proposal to lead to any break in the stalemated negotiations in Paris or to any change in the situation on the ground in South Vietnam. They probably are hoping that the proposal—complementing other recent propaganda attacks on the US and Saigon—will help refocus international interest on the Vietnam war and inhibit US aid to South Vietnam. The North Vietnamese are backing an anti-US international gathering on Vietnam in Stockholm this week for the same purposes.

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CAMBODIA

THE BATTLE FOR OUDONG

Heavy combat continued northwest of Phnom Penh near Oudong this week as the Cambodian Army made a major effort to recover the town. A 2,500-man government force advancing from the east fought to within a mile of Oudong before being halted by stiff resistance on March 28. Another relief force is trying to make its way to Oudong from the south but has made only limited progress. Remnants of the Oudong garrison were forced to abandon remaining positions on the town's outskirts after Communist shell-fire set off ammunition stocks.

name. The subject of negotiations is also likely to be on the agenda.

There has been no indication that Sihanouk, who has resumed residence in Peking, will participate in Samphan's talks with North Vietnamese leaders. Even though Sihanouk has been to Hanoi twice this year, he probably would like to confer with Samphan. The two last met a year ago during Sihanouk's visit to Khmer Communist - controlled areas of Cambodia.

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The Khmer Communists also attach considerable importance to Oudong. Broad coverage of its capture continues in propaganda; Sihanouk himself has sent a public cable of congratulations, and insurgent units are being urged to hold on to the town and to expand their holdings along Route 5 to the north.

CONSULTATIONS IN HANOI

A delegation headed by Khmer Communist "deputy premier" and "defense minister" Khieu Samphan began an official visit to North Vietnam late this week. The visit comes at a time when the Communists' dry season offensive is falling well short of expectations. In addition to Samphan, the delegation is composed of Ieng Sary—the prominent Khmer Communist official who has not been heard from since he left Peking for Cambodia last November—and several other Communist functionaries.

This is the first known trip outside Cambodia since the war began for the 42-year-old Samphan, who has gradually emerged as one of the top leaders in the insurgency. While in Hanoi, he is certain to discuss future insurgent strategy and tactics and may use the occasion to request additional military aid from the North Viet-

LAOS: UP THE DOWN STAIRCASE

Pathet Lao chairman Prince Souphanouvong has dispatched his plenipotentiary representative, Phoumi Vongvichit, to Vientiane to resume private discussions with Prime Minister Souvanna on the formation of a new coalition government. Phoumi arrived back in the Lao capital on March 27, following a six-month stay at Lao Communist headquarters in Sam Neua, and his return is significant. He previously served as the principal Pathet Lao official during the difficult negotiations leading to the February 1973 peace agreement and its implementing protocol the following September.

Both Souvanna and Pathet Lao negotiator Phoun Sipraseuth have publicly stated that Phoumi was returning to complete arrangements on the membership of the coalition cabinet and its advisory political council. Phoumi will probably also attempt to resolve with Souvanna the few procedural difficulties still impeding effective neutralization of the twin capitals of Vientiane and Luang Prabang.

Souvanna hopes that Phoumi's visit will lead to a meeting in Luang Prabang between himself, Souphanouvong, and the King to "consecrate" the new coalition before the Lao new year begins in mid-April. The King's recent decision to support Souvanna's opposition to a special session of the National Assembly, publicly announced in Vientiane this week, appears to clear the way for the Prime Minister to form the coalition by direct royal investiture without prior legislative ratification. The Pathet Lao are in favor of this coalition scenario.

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KOREA: POINT COUNTERPOINT

Since Seoul and Pyongyang began direct talks on national unification two years ago, each has put forward proposals designed less to unify Korea than to serve partisan objectives. The South, fearful of broadened contact with the tightly controlled and rigidly indoctrinated northerners, has advocated only the most limited social, cultural, and humanitarian exchanges. The North, seeking better access to audiences in the South, has pressed for broadened political contacts. To weaken the South militarily, Pyongyang has also pressed for new security arrangements involving termination of the UN role in Korea, mutual force reductions, and total withdrawal of US forces. The US military presence in South Korea has been persistently singled out as the main obstacle to unification.

These conflicting objectives led to an impasse in the talks months ago. But each side sees some advantage in continuing the dialogue, in part to meet domestic needs and in part to avoid forfeiting the diplomatic initiative to the other. Thus, in January, Seoul offered the North a non-aggression pact calling on both sides to avoid military confrontation and to respect the 1953 armistice agreements. On March 24, North Korean Foreign Minister Ho Tam responded in a lengthy statement before a meeting of the Supreme Peoples' Assembly.

For the first time, Ho Tam proposed direct negotiations between Pyongyang and Washington for a peace treaty to replace the existing armistice arrangements. He called upon the US to withdraw its troops from the South (and to abstain from any further military involvement thereafter), to terminate the UN Command mechanism headed by the US and, in effect, to end military support for the Seoul government. Ho Tam maintained that he was appealing directly to the US because South Korea had persistently obstructed a peace treaty and national reconciliation, and because—in his analysis—the US held the key to progress.

In advancing their proposal, the North Koreans appear to have two main, interrelated objectives. Anticipating a change this year in the

arrangements for policing the armistice—stemming from the possible termination of the UN Command—Pyongyang wants to stake out its negotiating position. In effect, the North Koreans are putting on record their opposition to measures limited to remodeling the Military Armistice Commission and are reaffirming their opposition to a continued US military role on the peninsula. Ho Tam's proposal for turning the armistice into a peace treaty, however, is probably only an opening gambit in what could become prolonged and complex negotiations on the UN Command issue.

By appealing to Washington over the head of Seoul, Pyongyang is also pressing the South Koreans to consider seriously various Communist proposals for bilateral North-South agreements. While Ho Tam characterized the present North-South dialogue as "meaningless," the North appears anxious to resume formal meetings and is ready to resume Red Cross talks with the South as well.

Seoul's official response to the Ho Tam proposal has been predictably negative; the South Korean spokesman characterized it as Pyongyang's effort to communize the South. Privately, however, the South Koreans appear intrigued by Pyongyang's renewed interest in the talks and by the relatively flexible language in Ho Tam's statement.

Seoul will remain cautious about any North Korean overture that appears to move the talks forward. The regime in the South is anxious not to undercut its claims of North Korean hostility and intransigence, allegations that have served so well in defusing domestic unrest in recent weeks. So long as the likelihood of discontent remains high—particularly on college campuses—Seoul will maintain a hard line toward Pyongyang while at the same time keeping the door open for a renewal of formal talks. In future discussions with Pyongyang, the ROK government must, however, also weigh the effect an improved atmosphere on the peninsula would have on UN consideration of the fate of the UN Command.

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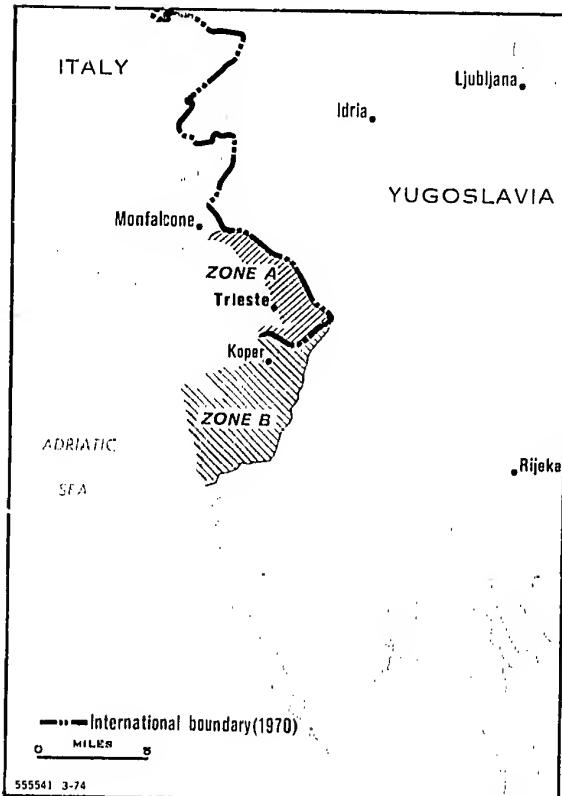
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YUGOSLAVIA-ITALY: THE TRIESTE GAMBIT

Belgrade is keeping up the pressure in its dispute with Rome over Zone B in order to drive home the message that Yugoslavia will resist any foreign claims on its territory.

Last week, the Yugoslavs rejected Italian Prime Minister Rumor's efforts to restore the good bilateral relations that prevailed before the dispute became public in early March. Belgrade views Rumor's general expression of goodwill as unsatisfactory and says that only a flat renunciation of the Italian claim will be acceptable. The Yugoslavs are also threatening to revive their 20-year-old claims to Zone A in Italy and to release the contents of secret talks with Rome—a move that could embarrass the Rumor government.



Belgrade's reaction may in part be aimed at other neighbors who might be tempted to revive irredentist claims or otherwise to intervene in Yugoslavia. High-ranking military officers in Belgrade have privately told US diplomats that the "signal" is aimed at "any and all" countries that threaten Yugoslav territorial integrity.

Domestic political concerns also contribute to the bluster. Belgrade has organized a wave of protest meetings throughout the country. Tito probably believes that national elections in April and a party congress in May will run more smoothly if problems at home are obscured by a wave of patriotic fervor.

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HUNGARY: LEADERSHIP SHAKE-UP

The shake-up in the top Hungarian leadership last week dealt a major setback to Budapest's liberal economic and cultural policies. Over the past year, the Kadar regime had done much to satisfy demands from domestic conservatives and from Moscow for more orthodoxy. Clearly, it was not enough. Kadar has now had to trim the strength of the staunch advocates of economic reform and cultural flexibility, most significantly by replacing the party secretaries responsible for these areas.

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In so doing, Kadar demoted two of his closest associates—Rezso Nyers and Gyorgy Aczel—and struck at policies that had become the twin pillars of Kadarism as cautiously practiced for more than a decade. While the moves may at last mollify his critics, they could also whet their appetites for further changes in policy or personnel. Indeed, additional shifts in the central party apparatus are already under way, and Kadar clearly must adopt a more conservative tack in domestic policy.

The immediate issue at the party plenum that implemented the shake-up was the economic reform and its preferential treatment of agriculture at the expense of urban workers. This topic undoubtedly flared into a discussion of "negative

social and economic phenomena" (acquisitiveness, conspicuous consumption, managerial haughtiness), which the conservatives have long criticized as ideologically unacceptable spinoffs of the decentralized economic reform. The discussion, moreover, came against the backdrop of generally increased Soviet pressures for orthodoxy in Eastern Europe. Moscow's concerns may have thus indirectly precipitated the debate and emboldened the conservatives to bring the issue to a head.

Kadar still retains the levers of power, and apparently still is the Soviet choice to run the country. Although his options are now more closely circumscribed than they have been since the early days of his rule, he has taken personal charge of updating policy for the next party congress in March 1975. Clearly he hopes to weather the setback and limit the damage.

THE HUNGARIAN CHANGES	
DEMOTED LIBERALS	
<i>Rezo Nyers</i>	Politburo member and architect of the economic reform. <i>Removed from party secretariat.</i>
<i>Gyorgy Aczel</i>	Politburo member and director of cultural policy. <i>Removed from party secretariat.</i>
<i>Lajos Feber</i>	Politburo member, deputy premier, and spokesman for agriculture. <i>Retired.</i>
<i>Niklos Ajtai</i>	Deputy premier for science and technology. <i>Retired.</i>
<i>Istvan Sarlos</i>	Chief editor of party daily, <i>Nepszbadsag</i> . <i>Relieved, to head the Patriotic Peoples Front.</i>
THOSE PROMOTED	
<i>Karoly Nemeth</i>	Politburo member and dark-horse candidate to succeed Kadar. A moderate, but less committed to some reform goals. <i>Moved into party secretariat, apparently in place of Nyers.</i>
<i>Imre Gyori</i>	Agitation and propaganda specialist in the late-1950s, and apparent conservative. <i>Replaces Aczel on party secretariat.</i>
<i>Zoltan Komocsi</i>	Politburo member and conservative foreign affairs spokesman. <i>Assumes additional duties as editor of party daily Nepszbadsag.</i>

Abrupt policy changes seem out of the question as even the staunchest conservatives realize the disruptive potential of such a course. In all likelihood, however, more constraints will be placed on the managers, more attention paid to the urban worker, and increased strictures put on intellectuals. The hand of the central economic authorities is also likely to be strengthened, but it is too early to predict how much this will gut the economic reform and its emphasis on local initiative and decentralization.

Kadar has until the next party congress to work out compromises with his critics. He is adept at such give-and-take and has used it as a key political tool throughout his 18-year tenure. In Kadar's favor is the fact that his domestic critics do not present a solid front. Kadar may well emulate the "salami tactics" of his Stalinist predecessor, Rakosi—not to purge, but to "slice off" issues and critics piecemeal.

The Soviets, of course, can set the limits of Kadar's actions. If Moscow is intent on extracting further concessions from him, it can give the

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conservatives a relatively free hand. Nevertheless, stability in Hungary is a clear priority for both Budapest and Moscow and, for the moment, the memory of 1956 may be sufficient to temper Soviet demands.

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SPAIN: CHURCH-STATE DISPUTE SIMMERS

Cardinal Tarancón's declaration in a sermon on March 24 that the church has a right to speak out on social problems—even if it displeases the government—will make it difficult for Madrid to adhere to its decision to play down its recent rift with the church. Last month, a pastoral letter authorized by Bishop Anoveros, which called for greater Basque autonomy, caused the most serious confrontation between church and state since Franco assumed power.

A recent statement from the Episcopate stressed that Anoveros had no intention of attacking national unity in his pastoral as the government had charged. Madrid accepted this explanation, even though the statement also firmly defended the church's right to speak on temporal affairs. In responding, the minister of information cited the recent tensions as evidence that the existing system regulating church-state relations is inadequate and called for renewed negotiations to revise the 1953 concordat. By not insisting that the bishop be exiled, the government has avoided for now a confrontation with the Vatican.

Meanwhile, Anoveros has quietly left for a vacation in southern Spain to permit the atmosphere in his Basque diocese to cool down. He is expected to return in time to take charge of Holy Week celebrations. Although rumors persist that he may be "kicked upstairs" to a post outside the Basque region, such a decision may be delayed because his failure to return to Bilbao would cause more unrest among the Basques to whom he has become a hero-martyr.

Although the government has backed off somewhat, the outlook for improved church-state relations is not good. Madrid is unlikely to agree to the Episcopate's wish to speak out on temporal affairs, and negotiations to revise the concordat will be difficult. Monsignor Casaroli, the Vatican's equivalent of foreign minister, stopped in Madrid on his way to Cuba this week and may have sounded out the government on its intentions.

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ICELAND: A BASE OFFER

The Icelandic Government's first official proposals for revising the defense agreement represent Reykjavik's maximum demands and are described as a "basis for discussion." The proposals were leaked last week by Communist leaders. Speaking before parliament on March 25, Prime Minister Johannesson conceded that the Icelandic position could be altered during subsequent rounds of negotiations, and that the "final outcome" might not correspond to his government's latest demands.

Under Reykjavik's plan, the US would be required to withdraw all of its forces from the NATO base at Keflavik. The pull-out would occur in stages, with one quarter of the troops being withdrawn before the end of 1974 and further withdrawals occurring every six months until the entire force will have departed by mid-1976. The base would become an emergency NATO airfield with a small civilian caretaker staff, and would be under the protection of Icelandic police.

The future of the Keflavik base has been a divisive issue in Iceland. Disagreements within the ruling tripartite coalition of the Progressive Party, the Liberal Left Organization, and the Communists have forced repeated postponements of negotiations after the first round ended last November. A nationwide signature campaign sponsored by supporters of the base this winter was surprisingly successful. Johannesson's review of his government's new proposals sparked a heated debate in parliament and elicited a sharp response from the opposition Social Democratic and Independence Party leaders, who favor retention of the base. More significantly, a deputy of Johannesson's own Progressive Party declared he would not support the government's move against the base, raising the possibility of other defections that might deprive the coalition of its parliamentary majority.

The hard line taken by the Johannesson government suggests that these initial proposals are intended in part to improve Iceland's bargaining position. Beyond this possible consideration, however, the Progressives and Liberal Leftists

evidently felt compelled to placate the Communists with a tough line. They may hope to dissuade the Communists from bolting the coalition, thus bringing down the government, at least until later in the year. Iceland will celebrate its 1,100th anniversary this summer, and moderate leaders may hope to avoid an embarrassing interregnum or a bitter political campaign at that time.

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COMMUNIST CARS INVADE THE WEST

The increasing rate of Soviet and Eastern European auto sales in Western Europe is causing concern, particularly in the UK, where the impact has been greatest. British imports from the USSR doubled last year and are expected to double again in 1974. Imports from Eastern Europe are also growing steadily. British dealers complain that Communist-made cars—the Soviet Moskvich, the Czech Skoda, and the East German Wartburg with price tags of \$1,700 to \$2,100—are much cheaper than comparable Western-made cars. Moreover, this year two new models, the Soviet Lada and the Polish Fiat 125, both built under license from Fiat of Italy, are being marketed in Western Europe at prices several hundred dollars below similar Italian-made Fiats.

Although imports of cars from the Communist countries amount to less than one percent of Western Europe's 12 million annual output, they are increasing rapidly as new dealerships are established. Last year, Western Europe imported 106,000 cars, about 50 percent more than in 1972; leading importers after the UK were France, Finland, and West Germany.

This year, for the first time, Soviet sales may outstrip those of other East European manufacturers. Moscow is setting up dealerships for its Lada in the UK, France, West Germany, and Austria; Soviet dealerships already are operating in Belgium, Switzerland, Finland, and Scandinavia. Last year, about 20,000 Ladas were marketed in Western Europe and the number this

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Typical Prices of Communist Cars in the West

Moskvich (USSR)	\$1755
Wartburg (East Germany)	1910
Skoda (Czechoslovakia)	2085
Fiat 125 (Poland)	2200
Lada (USSR)	2315

The Lada



Exports of Communist Cars to Western Markets

1973

USSR	41,000
Czechoslovakia	33,000
Yugoslavia	17,000
Poland	10,000
East Germany	5,000
Total	106,000

year could rise to 100,000; total Soviet car output is expected to reach 1 million cars.

Communist automotive industries have limited experience with modern production techniques, so that their cars are lower in quality and workmanship than Western counterparts. The Moskvich brake system is not satisfactory by British standards, for example, and the Wartburg was built with defective front wheel bearings that necessitated a recall. Moreover, most Communist-made cars, even those built under Fiat license, lack the smooth riding and easy handling characteristics of Western models.

Despite these drawbacks, buyers in the West are attracted by the cheap prices, economy of operation, and rugged construction of the Communist-made cars, which are built to last on rough roads and are often featured as "country cars." The low prices of Communist cars are becoming even more attractive as inflation drives up the price of cars made in the West. On the British market, for example, the price of a Moskvich has changed little since 1970, whereas other car prices have increased 10 to 20 percent.

The Soviet automobile industry is already bearing much of the burden in Moscow's attempt to increase sales of manufactured goods in the West. After 1975, when Soviet planners expect domestic demand to moderate, exports to Western Europe could reach even higher levels. Elsewhere in Eastern Europe, Poland is pushing exports of the Fiat 125, Czechoslovakia is doubling the size of its industry to boost exports, and Yugoslavia, already burdened with a mounting inventory of unsold cars, is seeking to increase exports to the West. The long run success of these Communist export programs will depend on the ability of domestic industries to turn out high-quality cars backed up by reliable service. Marketing cars in the West is certain to become more difficult in the years ahead as regulations on emission control, safety, and fuel economy impose new burdens on Communist producers.

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IRAQ**KURDISH AUTONOMY BY DECREE**

Baghdad is apparently attempting to implement its Kurdish autonomy plan by decree rather than by force. On March 26, the government's deadline for Kurdish acceptance of the plan, President Bakr issued several decrees designed to set the basic plan in motion. The decrees, announced over Radio Baghdad and relayed to the international press by the Iraqi News Agency, provide for:

- regional elections in the Kurdish area by October 1 and the formation of an 80-member Kurdish legislative council;
- an "appeals district" in the rebel area, presumably to deal with Kurdish complaints against the government;
- a 30-day amnesty period for all Kurds who had once served in the Iraqi Army or civil service but had since defected to the rebels.

Other decrees presumably will follow if the area remains calm. The wide play being given the decrees suggests they are intended more as propaganda than as serious attempts to resolve the dispute. In any case, implementation of the plan will be opposed by the Kurdish rebels. Their leaders rejected the government's autonomy plan earlier this month, and there is no sign that they have changed their views.

Claims by both sides to the oil-rich Kirkuk oil region remain the major obstacle to an easing of the situation. Rebel leader Barzani claims the area belongs within Kurdish jurisdiction and that oil revenues from the area should be split evenly between the government and the Kurds. Baghdad, because of the importance of Kirkuk oil to the Iraqi economy, claims the majority of the inhabitants of the Kirkuk area are not Kurds and regards the issue as non-negotiable.

Scattered skirmishes are continuing and heavy fighting could break out at any time, but

both sides seem to be moving cautiously. The government, which is continuing its military build-up in the vicinity of Kirkuk, now has more than three divisions ready to move against the Kurds if necessary. There is no indication, however, that an all-out attack on tribal strongholds is imminent. The Kurdish rebels also have mobilized but, for the moment at least, do not appear ready to take offensive measures.

GRECHKO VISITS BAGHDAD

Marshal Grechko was in Baghdad this week, charged with strengthening Soviet-Iraqi ties. With their influence ebbing elsewhere in the Middle East, the Soviets attach even greater importance to keeping Iraq as one of their most dependable friends in the region.

The status of Soviet military aid was probably a major topic of discussion. Iraq was the third largest recipient of Soviet arms in the Middle East in 1973, after Egypt and Syria. Soviet naval visits to the port of Umm Qasr may have also been discussed. Soviet use of this port increased considerably during the past year.

The Kurdish problem, which threatened to heat up during Grechko's stay in Baghdad, was probably also on the agenda. Moscow has publicly backed Iraq's plan for Kurdish autonomy and Grechko may have offered advice on how to resolve the issue.

Grechko may also have encouraged Iraq to settle peacefully the border dispute with Iran. While Moscow leans toward Baghdad rather than Tehran, the Soviets in public have stayed neutral and have tried to maintain good relations with both. The communique following Grechko's visit makes no mention of either the Kurdish problem or the border dispute with Iran.

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FOREIGN AID FOR SAHEL DROUGHT

Despite massive foreign relief commitments, food supplies are still critically short in five of the six countries of the famine-stricken African Sahel—Chad, Mali, Mauritania, Niger, and Upper Volta. The continuing drought is as disastrous for crops this year as last, and Ethiopia and several other East African countries recently joined the list of afflicted nations. Only Senegal, which was stricken last year, has had nearly adequate rainfall this year.

As they did last year, donors are concentrating on immediate relief needs, especially food. Last year, most aid came from Western donors. Communist countries provided less than 10 percent of the total; the US contribution was about 30 percent, and the EC's 22 percent. Donors committed themselves to provide 620,000 tons of grain (almost half by the US), but only about 450,000 tons were delivered in time because of lagging shipments by donors and inland transport problems.

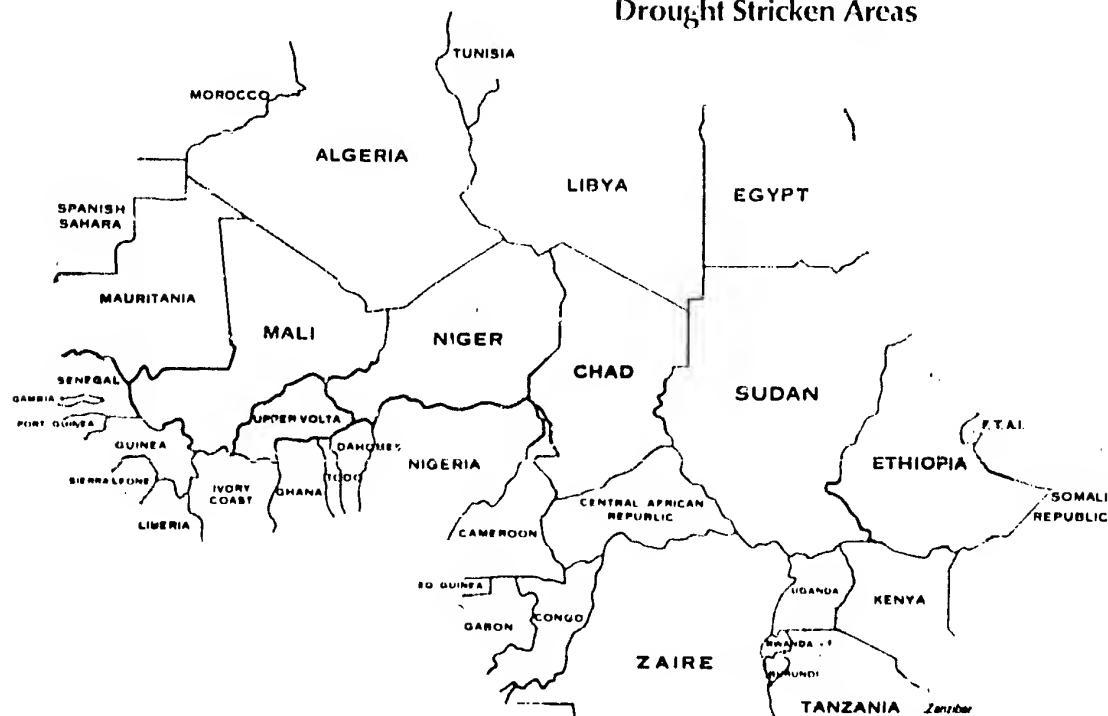
The amount of grain committed for 1974 should satisfy estimated import requirements of approximately 600,000 tons for the Sahel countries in the first nine months of 1974. Pledges of high-protein foods, money, and relief supplies should also be adequate. Distribution of food to outlying areas has been slow, however, and as in 1973, may again result in widespread food shortages. UN Secretary General Waldheim pointed out after a recent trip to the region that transportation and internal distribution are now the major problems rather than obtaining new shipments.

Meanwhile, longer term corrective programs such as irrigation and reforestation are being started, but they require substantial time to implement. A study by the UN Development Program of medium- and long-term economic development requirements is under way, but it will not be completed until 1975.

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Drought Stricken Areas

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ETHIOPIA: RENEWED MILITARY UNREST

Military impatience with the government's failure to prosecute corrupt officials and dismiss discredited senior officers has led to renewed unrest. Most of the dissidents, although pressing for swifter government action, are apparently still willing to back the new regime. These moderate elements appear to hold the upper hand, but tension between them and radicals in the military is likely to persist for some time. The radicals have split with their more moderate colleagues on the issue of support for Prime Minister Endalkachew's cabinet.

On March 25, radical air force personnel revolted at Ethiopia's main air base near Debra Zeit. The air force rebels had planned a move against the government but were stopped by an airborne unit and other troops at the base.

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The air force rebels form the core of dissatisfied radicals in the military. Primarily junior and non-commissioned officers, the radicals are impatient with the new cabinet's progress in implementing promised economic and political changes. They feel that continued agitation is the only way to maintain the momentum set in motion by the rebellion last month. They are particularly angry because the Emperor apparently continues to seek advice from the discredited former officials and military officers.

On March 26, police and army units in Asmara, which line up with the moderates, arrested 20 police officers including the police commissioner of Eritrea Province and one of the commissioner's top assistants. The police officials were charged with misuse of police funds and other abuses of their offices. The dissidents also reportedly arrested several unidentified air force officers.

On the same day, Asmara Radio broadcast a statement in the name of the "northern armed

forces" demanding swift judicial action for senior military and civil officials charged with corruption and incompetence. The statement called for the armed forces to be represented when the courts hear the cases. The dissidents also demanded assurances from the new government that no action would be taken against those involved in the military rebellion that forced the ouster of the former government.

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Legal proceedings on the corruption charges pose political risks for Haile Selassie and for Prime Minister Endalkachew's government. The Emperor's prestige will suffer if the investigations reveal widespread corruption among officials who have enjoyed his confidence. Endalkachew, a minister in the former cabinet, is believed to have used his official position for personal gain. Charges of illegal dealings may also involve some administrative officials in the new government, although the dissidents' demands are mainly directed against former cabinet ministers.

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UGANDA: MORE ARMY BLOODSHED

President Idi Amin continues in control after another violent clash between his supporters and opponents in the tension-ridden Ugandan Army. The latest bloodshed occurred against a background of increased tribal and religious animosities stimulated by Amin's determination to eliminate all potential rivals and to convert Uganda to a Muslim state.

The circumstances surrounding the shooting between army elements in Kampala on March 24 remain obscure. The regime attributed the "confusion" to a prominent Christian officer, Brigadier Charles Arube, who was accused of having duped soldiers of an elite unit into occupying key installations. Government broadcasts said that loyal troops had quickly restored order and that Arube had committed suicide.

Other versions, which appear more credible, say the trouble began with the kidnaping of Arube by security officials at Amin's behest. Troops from the Lugbara tribe, sympathetic to Arube and having other grievances against Amin, reportedly stormed several installations, including the prison where it was believed Arube was being held, before being crushed.

Initially, the Lugbara supported Amin, a member of the small Kakwa tribe, against other tribal groups, but during the past year Amin had come to suspect their loyalty and began removing them from key military positions. As a result, Lugbara hostility to Amin grew, reaching a high point two weeks ago when a popular Lugbara officer and former foreign minister was kidnaped and murdered by Amin's men. Press sources report that Amin has now begun a large-scale purge of Lugbaras from the army.

Tribal friction within the military has been intense ever since Amin took power in a coup in January 1971. Men and officers from several tribal groups have, in turn, been purged and sometimes killed as Amin has pushed forward members of his small Kakwa tribe. In recent months, Amin, a member of Uganda's small Muslim minority, has added to tensions in the army by deliberately removing Christian officers from troop commands. Amin's vendetta against Christian officers



Amin

appears to have been stepped up as he has pressed for political and military ties with the Arab countries.

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BANGLADESH: AILING LEADER, AILING COUNTRY

Decision-making in troubled Bangladesh will be virtually paralyzed during the absence of the country's founding father, Prime Minister Mujibur Rahman, who flew to the Soviet Union last week for medical treatment. Mujib, who may be seriously ill, left behind a fragmented administration and a deteriorating law-and-order situation.

In a health bulletin issued in Moscow on March 25, Mujib's illness was officially described as acute bronchitis, and it was said that treatment would require a minimum of three weeks. Rumors have circulated in Dacca and elsewhere on the subcontinent that Mujib may have a heart condition or lung or throat cancer. Another possibility is pulmonary tuberculosis, a disease he has had in the past.

The Prime Minister has insisted on retaining in his own hands the entire decision-making

authority for his government. Cabinet members, grouped into competing factions, presumably will mark time until their leader's return. Minister of Commerce Syed Nazrul Islam is acting prime minister, but he exercises little real authority. Should Mujib be removed from the political scene in the foreseeable future, a disruptive struggle for power could result, with little indication as to who would emerge victorious. No other political leader can claim even a small part of the massive popular support that Mujib enjoys.

Murders, many politically motivated, continue in Bangladesh. Two prominent leaders of Mujib's ruling Awami League were killed in a 48-hour period on March 22-23. At least several hundred persons have been killed for political reasons since independence in December 1971. Additionally, bands of political extremists are roaming through rural areas, often attacking police stations in attempts to secure arms. Non-political crimes are also on the increase because of bad economic conditions.

On March 17, an anti-government demonstration in Dacca by the largest of the opposition parties, the Jatiya Samajtantrik Dal, resulted in a clash with police, several deaths, and many injuries. The party's two leaders were promptly arrested on charges of fomenting violence. As has happened in the past when opposition parties precipitated violent confrontations with the government, the Awami League and its satellite organizations responded, apparently setting fire the following day to the Dacca headquarters of the Jatiya Samajtantrik Dal party.

The public is presently heaping much of the blame for the economic ills of the nation on neighboring India. The government, understandably, has not been unwilling to see New Delhi tagged with the responsibility—however unwarranted—for shortages and high prices. Anti-Indian feelings, however, may eventually be reflected in growing resentment of the Hindu minority in Bangladesh, with the possibility of communal violence that has long plagued Bengal.



Mujibur Rahman

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PERU: SOCIAL PROPERTY LAW READIED

During his most recent press conference, President Velasco indicated that his military government is ready to promulgate the long-delayed social property law. This will complete the regime's basic blueprint for restructuring the country's economy.

A draft of the law was made public last August and aroused considerable debate, including criticism by some top generals. Velasco has denied charges that the law is an attempt to communize Peruvian economic life. The character of the program, however, will probably leave little doubt that the government plans to strengthen its control of the nation's economy. When the law is implemented the social property system will be added to the three existing operational "sectors" into which commercial enterprises have been divided:

- "basic" industries under exclusive state control;
- "industrial communities" that eventually will allow workers to control fifty percent of individual businesses;
- completely private business limited to the smallest firms.

In addition, since 1970 the government has carried out an extensive agrarian reform program, whereby private holdings are being transformed into worker-dominated cooperatives.

As envisaged in the draft law, the government will provide financing for workers to establish social property enterprises in any business not set aside for state control. In addition, a large portion of the profits from the enterprises will be plowed back into a central fund to provide capital for new enterprises. Apparently, the government hopes that the social property sector eventually will become the dominant element among small and medium-sized businesses.

The transition of the social property concept from a basic law to a viable program is likely to

be long and painful. One of the first problems the regime must face is the extent of government control. There are indications that the military has learned some lessons from its experience in attempting to develop a base of popular support through its national mobilization agency, SINAMOS. Basic distaste for military tutelage and the regime's often heavy-handed tactics have created opposition among the poor—the very people in whose interests it claims to be working. In addition, independent businessmen are likely to resist efforts to convert to or compete with social property enterprises.

Nevertheless, the government, particularly President Velasco, appears committed to the social property concept in some form. If necessary, the regime probably will force private businesses to go along. The risks of further opposition and possible economic disruption would thereby be magnified, a prospect that is likely to prompt the government to operate gingerly during the initial phase of the new program.

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GRENADA: A TROUBLED ECONOMY

Political factions attempting to topple the oppressive and economically irresponsible regime of Prime Minister Eric Gairy have brought the island's economy to a standstill. Striking dock-workers have curtailed imports of foodstuffs and petroleum products and have blocked agricultural exports. Urban and rural unemployment is mounting rapidly. The continuing instability has practically halted the normally thriving tourist industry, which provides more than half of the island's national income.

With the economic decline, the government faces serious problems in finding the \$1.5 million needed monthly to pay salaries and meet other obligations. Tax revenues have all but

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disappeared. UK budgetary aid, which had been granted annually, ended when the island became independent on February 7, and other types of foreign grants and loans have dried up. The Prime Minister has been seeking, unsuccessfully so far, new aid from the US and the UK.

Unless Gairy turns his efforts to economic planning, sounder management, and accommodation with the opposition, the economic situation will continue to deteriorate. Only reopening the ports and a return to normal conditions will halt the downturn and revive tourist trade. Seamen and dockworkers, whose three-month strike has thoroughly disrupted the economy, have offered to return to work if Gairy will reopen an investigation into police brutality. Gairy has ignored even this moderate condition.

Gairy has already proven himself unequal to the task of economic planning and unwilling to effect accommodation with his political opposition. Private investment, a necessary ingredient in economic recovery, is unlikely to rise as long as Gairy remains in control, and Gairy is not likely to be ousted in the immediate future.

Time is on the side of the opposition, however. Despite his support among the rural poor, the pressures for Gairy's resignation are sure to increase as economic conditions deteriorate. Gairy would not be able to hold out for long if participants in the pre-independence general strike, augmented by unpaid school teachers and civil servants, should combine forces in a renewed effort to oust him.

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UN: SPECIAL SESSION APPROACHES

Although the special session of the General Assembly on the problem of raw materials and development opens on April 9, preparations are far from complete. The Group of 77—in fact, 96 developing countries who coordinate policies within the UN framework—is still divided on the question of including on the agenda an examination of the impact of higher oil prices on the economies of developing states. The developed states, for their part, are increasingly aware of the potential of third-world countries to control raw materials, and the possibility that raw material suppliers might organize additional cartels. The industrialized states would, in general, prefer that the session not undertake any moves that might lead to a substantial re-ordering of world economic relationships.

The terms of the session, called by Algerian President Boumedienne, are based primarily on resolutions passed at the fourth nonaligned

conference held in Algiers last September. These resolutions, drafted largely by Algeria, call for a new economic equilibrium between developed and developing states, and for the nonaligned states to assert greater control over their natural resources.

The Group of 77 and the nonaligned nations have met almost continuously since the session was formally called in an attempt to develop a common position for the conference. They have formulated a far-reaching but non-specific declaration of principles that includes:

- international cooperation to banish disparities among nations, with special concern for the needs of the least-developed states;
- recognition of every country's sovereignty over its own resources and domestic economy;

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- regulation and control of multinational corporations;
- an end to colonial and racial domination of developing states and assistance to overcome such domination;
- transfer of technology; and
- reform of the international monetary system and development of preferential trade privileges for developing economies.

No agreement has been reached, however, on the most sensitive issue—the effect of the increase in energy prices on the economies of the developing states. Oil-exporting members do not want the session to focus on oil, while the oil-importing states of Africa, Asia, and Latin America insist on discussing the oil problem. The issue of higher oil prices is the first major test of nonaligned solidarity in the face of competing national interests since the summit last September.

The stand of the oil-producing states may be strengthened by continued interest in a French proposal for a separate UN conference on energy matters. The French UN delegation—with Algerian approval—recently reaffirmed Paris' continued interest in such a meeting, originally proposed before the Boumediene initiative. The French intend to explore the question in various UN regional economic organizations before calling for a world conference.

The oil importers among the developing states as well as the more moderate countries in the Group of 77 feel that the approach taken in the declaration of principles may not only provoke a confrontation with the developed states but could also fail to provide practical solutions to development problems. A nine-member group is meeting to draft an alternative proposal. The group, which includes oil producers as well as importers, will seek to develop specific economic points for General Assembly consideration. The

working group will present its findings to the Group of 77 on April 4.

Among the developed countries, a change of focus in how to deal with the question of resources is affecting their policies toward the third world and slowing their attempts to develop a policy for the session. This change is illustrated by the shift in emphasis in the EC's preparations for negotiations with the associated and would-be associated African, Caribbean, and Pacific states. The EC Commission is now thinking of programs that would provide assured supplies of raw materials to EC members—as a quid pro quo for guaranteed minimum purchases at established prices from the developing exporters. Earlier, it had been considering programs that would have provided development aid through revenue supplements to exporters during lean years.

On April 1, the EC will consider a proposal formulated by the EC Commission for an international fund to provide aid to those developing countries most affected by the increase in oil prices. As envisaged, the \$3 billion fund, to which the EC would contribute \$500 million, would also receive money from the US and oil-producing states. The commission's intention was for the proposal to be presented to the General Assembly as a community initiative, but approval by all the Nine now seems unlikely.

Divisions among third-world countries may mitigate the overwhelming voting superiority of the Group of 77 and the nonaligned in the General Assembly, and thus soften or even turn back radical proposals. Complete frustration of the developing countries' desire for recognition of their being "short-changed" on raw materials trade, however, could provoke the kind of rich-poor confrontation that the industrialized nations hope to avoid. In such an atmosphere, some of the developed countries could become more interested in vying for third-world favor than in maintaining solidarity.

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